Industry Canada Industrie Canada

Q1 2010 VENTURE CAPITAL MONITOR

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A QUARTERLY UPDATE ON THE CANADIAN VENTURE CAPITAL INDUSTRY

Canadian high growth innovative small and medium-sized enterprises (SMEs) that commercialize research depend to a large extent on the venture capital (VC) industry for funding. Therefore, a strong VC industry is important for the growth of this segment of SMEs. The goal of this series is to provide current information about the VC industry in Canada. To this end, the series will track trends in investment activity report on topical VC-related research and look at key technology clusters where VC investment is taking place.

INTRODUCTION

This issue discusses venture capital (VC) investment and fundraising activity in Canada during the first quarter of 2010. It also describes recent federal and provincial government measures that support VC. Finally, it includes an article on the many entrepreneurship boot camps in Canada that help develop innovative start-ups.

VC ACTIVITY OVERVIEW

Summary of investment and fundraising

Activity levels consistent with 2009

VC investment in Canada reached $276M in Q1 2010 (105 deals), roughly equivalent to the $279M (103 deals) invested during the same period in 2009.

Fundraising totalled $268 million, up 25 percent from $215 million raised in Q1 2009, but roughly in line with the average quarterly fundraising levels observed in 2009.

Table 1
VC investment and fundraising, Q1 2009 and Q1 2010

	Q1 2009	Q1 2010	% Change
	($ millions)		
Investment	279	276	- 1
Fundraising	215	268	25

Source: Thomson Reuters Canada 2010.

While activity levels in Q1 2010 are consistent with those of 2009, it should be noted that investment in 2009 was significantly less than that of previous years.

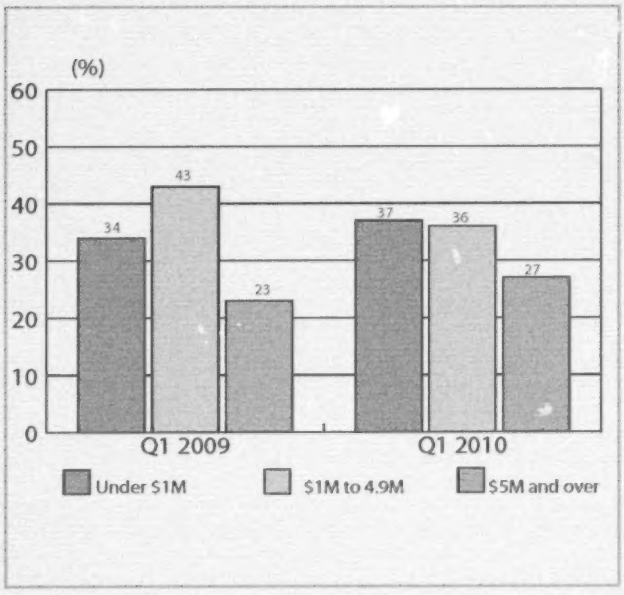
Deal size

Decline in average deal size

The average deal size was $2.6M in Q1 2010, which is just slightly lower than the $2.7M average during Q1 2009. Both averages were influenced by unusually large deals that took place during each of these periods. In Q1 2010, $54M was invested in the Montréal-based clean technology company Enerkem, and in Q1 2009, $50M was invested to start a new wireless service provider (Figure 1). Even with this large investment, the average deal size in Q1 2010 was still well below the $4M average size recorded between 2004 and 2008.

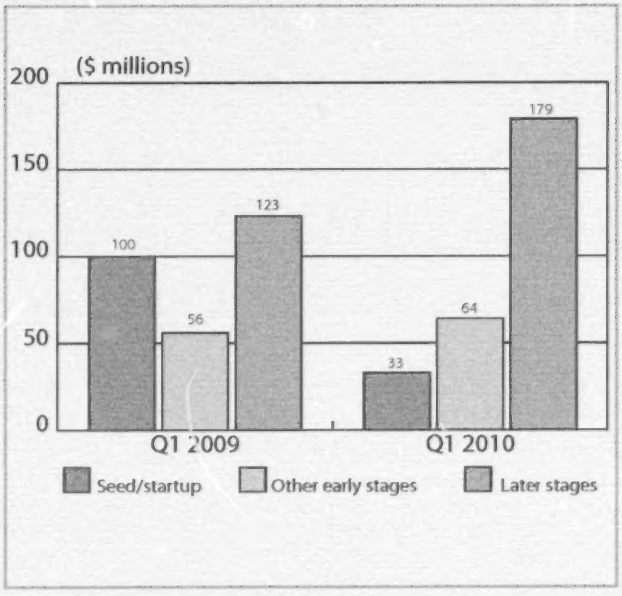
Canada

Figure 1
Distribution of VC investment by deal size, Q1 2009 and Q1 2010



Source: Thomson Reuters Canada 2010.

Figure 2
VC investment by stage of development, Q1 2009 and Q1 2010



Source: Thomson Reuters Canada 2010.

Stage of development

Decreased early stage activity

Investment in the seed and start-up stages reached only $33M (19 deals) in Q1 2010. This represents the third lowest quarterly investment in those stages since 1998 in terms of dollars and the second lowest in terms of the number of deals. Late-stage investment in Q1 2010 totalled $179M (59 deals), a 46 percent increase from $123M (43 deals) in Q1 2009 (Figure 2).

New versus follow-on investments

Decline in number of early-stage investments

The number of first-round VC deals totaled 39 in Q1 2010, only slightly different than the 37 new deals in Q1 2009 and 42 in Q4 2009. As noted above, the number of deals in the seed and start-up stages declined for both first-round and follow-on investments (Table 2).

Table 2
The number of first-time and follow-on deals, Q1 2009 to Q1 2010

Investments		Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
New	All	37	37	45	42	39
	Seed/ start-up	15	14	10	19	10
	Other early stages	7	5	6	4	6
	Later stage	15	18	29	23	23
Follow-on	All	66	71	62	88	66
	Seed/ start-up	11	8	9	18	9
	Other early stages	27	27	19	27	21
	Later stage	28	36	34	43	36

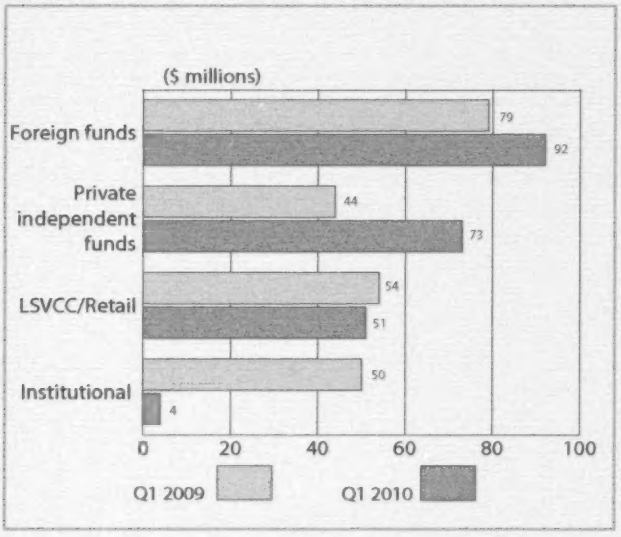
Source: Thomson Reuters Canada 2010.

Type of investor

Increase in activity by private independent and foreign funds

VC invested by private independent funds and by foreign funds increased by 65 percent and 17 percent respectively in Q1 2010 compared to Q1 2009. This did not translate into an overall increase in VC investment in Q1 2010 because the institutional investor segment made a very large single investment in Q1 2009, but has since returned to its more typical investment levels. Finally, investment levels of labour sponsored venture capital corporations (LSVCCs) and other retail funds remained relatively flat, year-over-year (Figure 3).

Figure 3
Distribution of VC investment by type of investor, Q1 2009 and Q1 2010



Source: Thomson Reuters Canada 2010.

Fundraising

VC fundraising in line with average in 2009

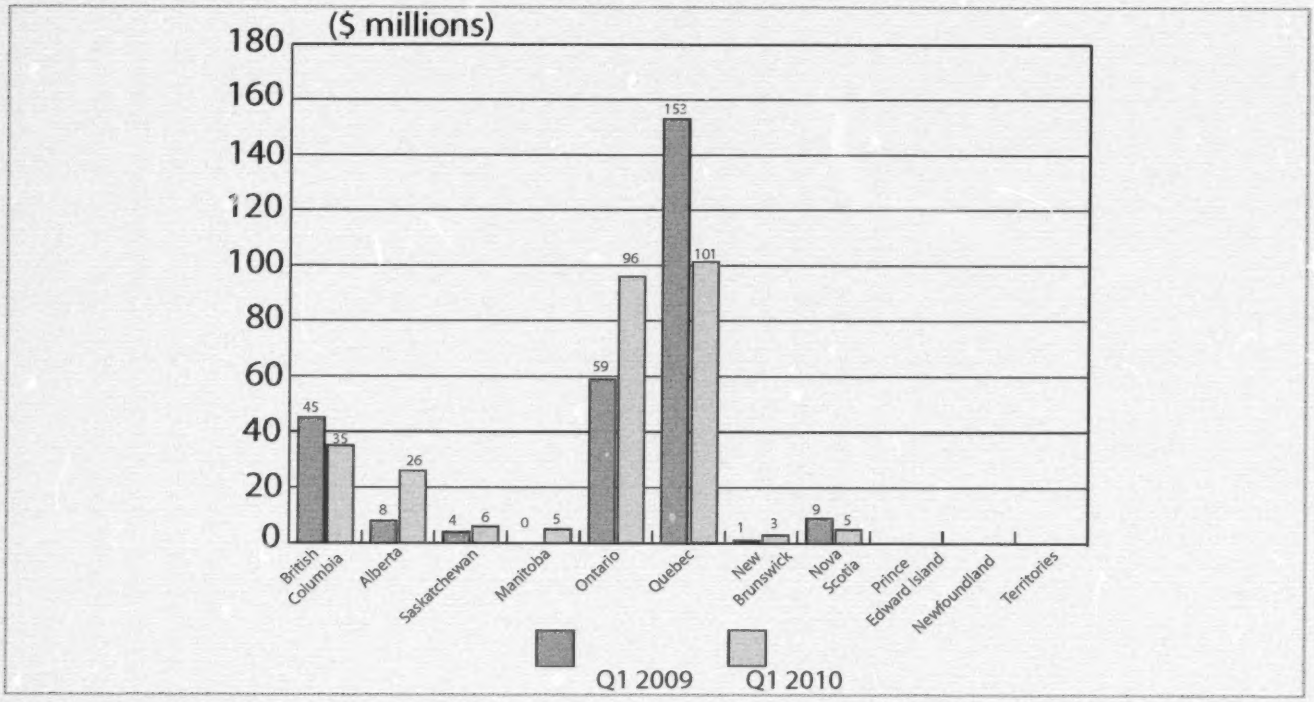
VC funds in Canada raised $268M in Q1 2010, which is just slightly above the quarterly average during 2009, but represents a 25 percent increase over Q1 2009. Private independent funds raised $140M, more than triple the amount raised in Q1 2009. LSVCCs and other retail funds raised $128M, 26 percent less than the $173M raised during Q1 2009.

Regional distribution

Quebec continues to have largest share of VC investment

The province of Quebec received the most VC in Q1 2010 with a total of $101M (Figure 4). This is down from $153M during the same period last year. In the province of Ontario, VC investment reached $96M in Q1 2010, a 60 percent climb from the same time last year.

Figure 4
Regional distribution of VC investment in Canada, Q1 2009 and Q1 2010



Source: Thomson Reuters Canada 2010.

Table 3
Number of companies receiving VC by province, Q1 2009 and Q1 2010

	Q1 2009	Q1 2010	% Change
British Columbia	10	18	80
Alberta	6	6	0
Saskatchewan	3	3	0
Manitoba	0	2	n/a
Ontario	35	29	-17
Quebec	43	42	-2
New Brunswick	2	3	50
Nova Scotia	4	2	-50
Prince Edward Island	0	0	n/a
Newfoundland	0	0	n/a
Territories	0	0	n/a

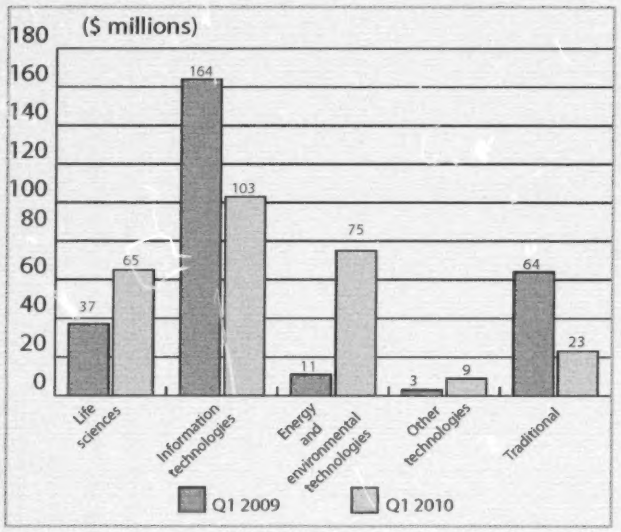
Source: Thomson Reuters Canada 2010.

Sector distribution

Increased investment in life sciences and alternative energy sectors

VC investment in the life sciences sector reached $65M (24 deals) in Q1 2010, a 75 percent increase over the same period last year. The VC investment trends in the industry sectors shown in Figure 5 mainly reflect a small number of large deals. For instance, VC investment in the IT sector in Q1 2010 reached $103M (42 deals), down from $164 million (50 deals) in Q1 2009, and this drop is partially due to the $50M wireless deal in 2009. Similarly, the $54M deal in Enerkem is partially responsible for the increase in VC in the Energy and Environmental sectors from $11M (4 deals) in Q1 2009 to $75M (7 deals) in Q1 2010.

Figure 5
VC investment by industry sector, Q1 2009 and Q1 2010



Source: Thomson Reuters Canada 2010.

GOVERNMENT ACTIVITIES

In Q1 2010, the Business Development Bank of Canada (BDC) made VC investments in nine companies, which, together with other investors, totalled $98M (Table 4). The BDC itself contributed $16M and also made investments in VC funds.

Table 4
BDC deals in Q1 2010

	BDC	Co-investors	Total	Number of deals
	($ millions)			
Seed and start-up	2.0	5.0	7.0	1
Development	5.2	26.4	31.6	4
Later stage	9.3	50.2	59.5	4
Total	16.5	81.6	98.1	9

Source: Business Development Bank of Canada 2010.

Export Development Canada announced in March that it has committed US$10M to XPV Water Fund Limited Partnership, a Toronto-based VC fund focused in the water sector.

The Government of Canada's 2010 budget proposes changes to improve the flow of foreign VC into Canada. The changes would narrow the definition of "taxable Canadian property" in order to reduce the tax compliance burden on non-Canadians that make certain investments in Canada including investments in small businesses. In particular, this proposal aims to eliminate the need for tax reporting under section 116 of the *Income Tax Act* for many investments.

Three Quebec-based VC funds have been selected to receive investments from the provincial government and its partners. The announcement was made in March 2010 by the government-approved selection committee. The initiative to launch three new VC funds to invest in seed-stage technology companies was announced by the Government of Quebec in 2009. In addition to the Government of Quebec, Fonds de solidarité FTQ, FIER Partenaires and private-sector contributors will also invest in the funds. Each fund will be capitalized at a minimum of $41.25M. The funds that have been selected to receive this investment are FounderFuel Ventures, AmorChem and Cycle-C3E Capital.

ENTREPRENEURSHIP BOOT CAMPS AND INVESTMENT READINESS

Prospective technology entrepreneurs face a number of challenges as they build their businesses. Identifying an optimal sales strategy, determining the ideal structure for the board of directors and developing strategies to protect intellectual property are a few examples. These obstacles can be particularly hard to overcome for first-time entrepreneurs. Learning from experienced mentors is one way to improve one's ability to successfully face these challenges.

Entrepreneurship boot camps provide learning opportunities for starting entrepreneurs. They are offered by universities, business service providers and community-based organizations. For entrepreneurs looking for financing, boot camps organized by investment forums or business start-up competitions represent a useful opportunity to learn, network and receive feedback from potential investors.

Some boot camps are offered in the context of start-up competitions. New Brunswick Innovation Foundation's breakthru provides for competing entrepreneurs to go through a one-day boot camp to help them with business case development, business plan writing and presentation skills. Another example is Edmonton's TEC VenturePrize, a business start-up competition that offers participants seminars on business plans, strategic business issues and marketing at the University of Alberta's School of Business campuses in Calgary and Edmonton over a three-day period.

Other entrepreneurship boot camps are targeted at specific industries. For instance, the annual Webcom Montréal, a one-day fee-based boot camp, focuses on information and communication technologies and includes sessions covering a broad variety of topics. Presenters are usually entrepreneurs and CEOs of companies who operate in the information and communication technology sector.

Finally, investment forums are often combined with boot camps and take different forms. For example, at Startup Camp Montreal a number of companies are chosen to attend an afternoon and evening event during which experienced entrepreneurs share their experiences on topics chosen by the attendees. At the end of the session, five companies selected by potential investors deliver five-minute presentations to attract investment. In contrast, the annual Banff Venture Forum is more formal and takes place over a number of days. Companies that are chosen to present at the forum are first asked to take part in a two-day boot camp, which helps prepare them with a business plan and pitch that are sure to catch the interest of investors.

In March 2010, Industry Canada hosted a webinar for entrepreneurs based on material used at the Banff Venture Forum's boot camp. The session was entitled Pitching to Investors Webinar: Creating & Delivering Your Investor Presentation. The webinar was delivered by Marc Elrick, who has advised numerous entrepreneurs on developing professional business plans and investor presentations, and has facilitated entrepreneur boot camps. During the webinar, Mr. Elrick covered the 10 "must-have" slides that potential investors look for and illustrated key points using slides from real-life presentations. A recording of this webinar is available at CanadaBusiness.ca/eng. Industry Canada is planning future entrepreneurship-related webinars. To be included on the mailing list for these sessions, please send an email request to SBTBWebinar-DGPETWebinaire@ic.gc.ca.

A list of entrepreneurship boot camps in Canada is provided below (Table 5).

Table 5
Entrepreneurship boot camps in Canada

breakthru (New Brunswick Innovation Foundation)	www.nbif.ca/eng/breakthru
Calgary Technologies Inc. Entrepreneur Boot Camp	www.calgarytechnologies.com
TechAlliance Entrepreneur 1.0	www.techalliance.ca/entrepreneur-10
Fusion Entrepreneur Bootcamp	www.thefusionforum.com/entrepreneur-bootcamp
Startup Camp Montreal 6	http://scmtl6.wikidot.com
Stu Clark Centre For Entrepreneurship Boot Camp	www.umanitoba.ca/entrepreneur
TEC VenturePrize	http://www.tecedmonton.com/BUSINESSSERVICES/%20TECVenturePrize/tabid/71/Default.aspx
The Banff Venture Forum	www.banffventureforum.com
The Ottawa Network Startup Boot Camp	www.theottawanetwork.com/tag/entrepreneur
VeloCity Entrepreneurs Bootcamp	www.velocity.uwaterloo.ca
Webcom Montréal	www.webcom-montreal.com/?lang=en

NOTES

This publication is part of a series prepared by the Small Business and Tourism Branch. The branch analyses the financial marketplace and how trends in this market impact small businesses' access to financing. Current research is focused on high-growth firms, the aspects of both Canada's VC and general business environment that affect the success of these firms, and the key players in the risk-capital market (for example, VC firms and angels).

The Small Business and Tourism Branch is also responsible for the Small and Medium-Sized Enterprise Financing Data Initiative (SME FDI). The SME FDI is a comprehensive data-collection program on SME financing in Canada. In partnership with Statistics Canada and Finance Canada, Industry Canada reports on the supply of and demand for financing by small and medium-sized businesses. Further information and statistical findings and reports are available at www.sme-fdi.gc.ca.

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